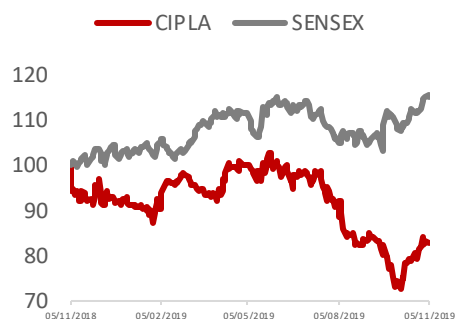



Q2FY20 Result update @ Dalal & Broacha
BUY

Current Price	481
Target Price	570
Upside	19%
52 Week Range	390/586

Key Share Data

Market Cap (Rs.bn)	387.33
Market Cap (US\$bn)	5.33
No of o/s shares (mn)	806.11
Face Value	2
Monthly Avg.vol (BSE+NSE) Nos'000	3568
BSE Code	500087
NSE Code	CIPLA
Bloomberg	CIPLA IN

Price performance


% Shareholding	Sep-19	Jun-19
Promoters	36.68	36.70
FII	23.63	24.98
DII	13.24	11.78
Others	27.07	26.57
Total	100	100

Key Financials

Year	Sales	% Growth	EBIDTA	OPM (%)	PAT	% Growth	EPS	PE (x)	RoE (%)	RoCE (%)
FY17A	146,302	6.1	21,955	15.0	7,261	(46.6)	9.0	51.8	5.8	4.9
FY18A	152,193	4.0	28,264	18.6	14,105	94.3	17.5	26.7	9.9	7.8
FY19A	163,624	7.5	30,973	18.9	14,572	3.3	18.1	25.9	9.7	8.6
FY20E	167,505	2.4	31,293	18.7	15,819	8.6	19.6	23.8	9.6	8.7
FY21E	185,095	10.5	35,053	18.9	19,310	22.1	24.0	19.5	10.7	9.6

Cipla's Q2FY20 revenues were in line with estimates.

The growth in India business due to good monsoon improved profitability. The US business growth was lower than expected due to competition in Cinacalcet. The profits were better than estimates due to a 400 bps yoy improvement in gross margins at 66.8% Vs our estimate of 65%. The limited competition launches over the last few quarters enabled improve US gross margins by 500 bps.

Healthy revenue growth across India, US and South Africa

Sales grew by 10% yoy/10% qoq to **Rs 43.9 bn**, in line with our estimate of **Rs 43.9 bn**. The Sales growth came from **North America** (up by 26% yoy/down by 15% qoq to Rs 9.5 bn), **India** (Growth of 6% yoy and 29% qoq Rs 17 bn), **South Africa** (Growth of 9% yoy and 3% qoq Rs 5.6 bn), **Europe** (Growth of 35% yoy and degrowth of 6% qoq Rs 1.9 bn). The **API** (-degrowth of 9% yoy and 14% qoq Rs 1.6 bn), **ROW** (degrowth of 4% yoy and growth of 62% qoq Rs 4.5 bn) and **Global access** (degrowth of 23% yoy and growth of 22% qoq Rs 1.9 bn).

Better India business and US launches Improves profitability

Gross Profit grew 15% yoy and 5% qoq to Rs 29.3 bn. Gross margins were higher at 66.8% Vs our estimate of 65%. Gross margins improved +400 bps yoy and declined-320bps qoq. EBITDA increased 30% yoy/ flat qoq to Rs 9 bn. EBITDA margins were at 20.7% (+320 bps yoy/-210 bps qoq). PBT was higher +34% yoy/+2% qoq to Rs 6.81 bn. PAT increased 31% yoy/-1% qoq to Rs 4804 mn.

Outlook & Valuation

We are positive on Cipla's progress across key markets i.e.: India, US and South Africa. The limited competition launches in US improved overall profitability over the last few quarters. The company's respiratory approvals and launches in the developed markets will further improve profitability, going forward. We believe Cipla is on the growth path with support from its India business due to favourable monsoon in FY20.

At CMP, Cipla trades at 20x FY21E EPS of Rs 23.97.

We retain our BUY rating on the stock.

**Q2FY20 Result update @ Dalal & Broacha****Key highlights from the concall:****INDIA**

- Cipla +6% Rs 17.4 bn, through strong recovery in trade generics (+60% qoq) and 13% growth in branded products across both acute (+15%) and chronic (15%) products.
- Cipla grew better than market in key chronic therapies of respiratory, urology and cardiology.
- The company expects to grow more than industry (10-12%), through expansion in chronic therapies (60% of India Sales) as well as acute therapies and partnerships.

US

- US business (\$135 mn) grew 25% due to competition in Cinacalcet (gSENSIPAR). Contribution from Cinacalcet normalized. In Q3FY20, US sales may be lower due to erosion in Cinacalcet.
- The company launched 2 new products during Q2FY20, namely Pregabalin (Market size \$ 5.4 bn – 11 players) and Daptomycin (Market size \$350 mn, 10 players).
- Commenced supplies of Plazomycin (ZEMDRI) IV solution to the US.
- The limited competition products have improved US gross margins by 500 bps and 900 bps by H1FY20.
- Patient randomization completed for gAdvair. Clinical trials on track.
- Cipla plans to launch Albuterol (gProAir) by H1FY21. The respiratory launches should further improve profitability.

SOUTH AFRICA

- South Africa business grew 12% on constant currency basis.
- The South Africa private market + 9% yoy/ +18% qoq to \$56 mn.
- Cipla continues to be third largest player in the OTC segment in South Africa, through Mirren.

FINANCIALS

- Debt reduction of \$110 mn through pre-payment during the quarter.
- The company will avail the reduced tax rate (21%) from FY21.


Q2FY20 Result update @ Dalal & Broacha

CIPLA (IN Millions)	Q2FY20	Q2FY19	Q1FY20	% YoY	% QoQ	CIPLA (IN Millions)	H1FY20	H1FY19	% YoY
Net Revenue	43,958	40,119	39,890	10%	10%	Net Revenue	83848	79509	5%
Raw Mat Consumed	11,257	10,868	11,045	4%	2%	Raw Mat Consumed	22302	20380	9%
Purchases	3,687	3,760	3,687	-2%	0%	Purchases	7374	7309	1%
Changes in Inventories	-332	-507	-2,768	-35%	-88%	Changes in Inventories	-3100	672	
Gross Profit	29,346	25,998	27,927	13%	5%	Gross Profit	57273	51148	12%
% Margins	66.76%	64.80%	70.01%			% Margins	68.31%	64.33%	
Employee costs	7,616	7,122	7,561	7%	1%	Employee costs	15178	14262	6%
Other Expenses	12,634	11,853	11,319	7%	12%	Other Expenses	23954	22601	6%
EDIDTA	9,095	7,022	9,046	30%	1%	EDIDTA	18141	14286	27%
EDIDTA Margins (%)	20.69%	17.50%	22.68%			EDIDTA Margins (%)	21.64%	17.97%	
Depreciation	2,830	2,819	2,680	0%	6%	Depreciation	5509.6	5229	5%
Finance Cost	461	444	521	4%	-12%	Finance Cost	918.9	794.6	16%
Other income	1,005	1,326	784	-24%	28%	Other income	1,790	3,027	-41%
Profit before tax	6,810	5,085	6,629	34%	3%	Profit before tax	13,503	11,289	
PBT Margins (%)	15.15%	12.27%	16.30%			PBT Margins (%)	15.77%	13.68%	15%
Exceptional Items	-	-	-			Exceptional Items	0	0	
Profit before tax after						Profit before tax after			
share of profit	6,810	5,085	6,629	34%	3%	share of profit	13502.8	11289.1	20%
PBT Margins (%)	15%	12%	16%			PBT Margins (%)	16%	14%	
Provision for tax	2,006	1,424	1,922	41%	4%	Provision for tax	3,928	3,161	24%
Tax Rate	29%	28%	29%			Tax Rate	29%	28%	
Reported PAT	4,804	3,661	4,707	31%	2%	Reported PAT	9,575	8,128	18%
PAT Margins (%)	10.69%	8.83%	11.57%			PAT Margins (%)	11.18%	9.85%	
Share of Profit/loss	-59.4	7.8	-235			Share of Profit/loss	-294.4	-2.9	
Adjusted PAT	4,745	3,669	4,472	29%	6%	Adjusted PAT	9,281	8,125	14%
PAT Margins (%)	10.55%	8.85%	10.99%			PAT Margins (%)	10.84%	9.84%	
Equity	161.2	161.05	161.17			Equity	161.22	161.5	
EPS	5.84	4.68	5.93			EPS	11.79	10.29	



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CIPLA - Key Financials

P&L (Rs mn)	FY17	FY18	FY19	FY20E	FY21E	Cash Flow St. (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	146,302.5	152,192.5	163,624.1	167,504.9	185,095.3	Net Profit	7,261.3	14,105.3	14,571.8	15,819.3	19,309.6
Raw materials	(53,171.2)	(54,384.2)	(57,844.9)	(55,421.1)	(61,172.3)	Add: Dep. & Amort.	13,229.3	13,228.2	13,263.1	12,809.5	13,058.9
Employee costs	(26,338.2)	(26,901.0)	(28,565.3)	(30,850.5)	(33,935.6)	Cash profits	20,490.6	27,333.5	27,834.9	28,628.8	32,368.5
Other Expenses	(44,837.8)	(42,643.5)	(46,240.8)	(49,940.1)	(54,934.1)	(Inc)/Dec in					
Cost of sales	(124,347.2)	(123,928.7)	(132,651.0)	(136,211.7)	(150,041.9)	-Sundry debtors	(2,067.8)	(5,394.0)	(10,482.7)	1,314.6	(4,170.9)
Operating Profit	21,955.3	28,263.8	30,973.1	31,293.2	35,053.3	-Inventories	3,227.7	(5,594.2)	798.7	(2,777.2)	(4,402.6)
Depreciation*	(13,229.3)	(13,228.2)	(13,263.1)	(12,809.5)	(13,058.9)	-Loans/advances	(5,079.9)	(215.9)	1,487.5	(332.8)	(351.3)
PBIT	8,726.0	15,035.6	17,710.0	18,483.7	21,994.4	-Sundry creditors	953.2	5,479.8	(1,711.3)	1,777.5	2,205.9
Other income	2,286.9	3,576.5	4,765.7	5,242.3	5,766.5	-Others	4,019.4	(3,910.9)	(143.1)	792.9	951.5
Interest	(1,593.8)	(1,142.3)	(1,684.3)	(1,376.8)	(1,376.8)	Change in working capital	1,052.6	(9,635.2)	(10,050.9)	775.0	(5,767.4)
Profit before tax	9,419.1	17,469.8	20,791.4	22,349.2	26,384.2	CF from Oper. activities	21,543.2	17,698.3	17,784.0	29,403.8	26,601.1
Provision for tax	(1,797.6)	(2,501.1)	(5,695.3)	(6,257.8)	(6,859.9)	CF from Inv. activities	(13,253.3)	(12,542.6)	(19,275.5)	(15,550.1)	(8,500.5)
PAT Bfr Excep Items	7,621.5	14,968.7	15,096.1	16,091.4	19,524.3	CF from Fin. activities	(11,698.3)	(1,737.7)	(1,044.0)	(10,349.7)	(2,190.6)
Extraordinary Items	-	(775.2)	-	-	-	Cash generated/(utilised)	(3,408.4)	3,418.0	(2,535.5)	3,504.0	15,910.1
Minority Interest/ Share of F	(360.2)	(88.2)	(524.3)	(272.1)	(214.7)	Cash at start of the year	8,714.0	5,305.6	8,723.6	6,188.1	9,692.1
Reported PAT	7,261.3	14,105.3	14,571.8	15,819.3	19,309.6	Cash at end of the year	5,305.6	8,723.6	6,188.1	9,692.1	25,600.1
Balance Sheet	FY17	FY18	FY19	FY20E	FY21E	Ratios	FY17	FY18	FY19	FY20E	FY21E
Equity capital	1,609.0	1,610.2	1,611.4	1,611.4	1,611.4	OPM	15.0	18.6	18.9	18.7	18.9
Reserves	123,827.6	140,681.7	148,511.4	162,402.6	179,398.4	NPM	4.9	9.1	8.7	9.2	10.1
Net worth	125,436.6	142,291.9	150,122.8	164,014.0	181,009.8	Tax rate	(19.1)	(14.3)	(27.4)	(28.0)	(26.0)
Def. Tax Liab.+Minority Int.	11,951.2	8,557.5	7,572.9	8,030.0	8,532.4	Growth Ratios (%)					
Secured loans	36,453.6	36,621.1	38,300.7	30,600.7	30,600.7	Net Sales	6.1	4.0	7.5	2.4	10.5
Unsecured loans	5,122.9	4,859.8	8,736.1	8,736.1	8,736.1	Operating Profit	(11.5)	28.7	9.6	1.0	12.0
Total debt	41,576.5	41,480.9	47,036.8	39,336.8	39,336.8	PAT	(46.6)	94.3	3.3	8.6	22.1
Other non current liab	936.5	932.5	833.1	916.4	1,008.1	Per Share (Rs.)					
CAPITAL EMPLOYED	178,964	192,330	205,566	211,381	228,879	Net Earnings (EPS)	9.0	17.5	18.1	19.6	24.0
Gross block	61,608.3	71,059.1	75,059.3	80,059.3	87,059.3	Cash Earnings (CPS)	25.5	34.0	34.5	35.5	40.2
Accumulated depreciation	(11,521.4)	(17,905.6)	(23,915.8)	(36,725.3)	(49,784.2)	Dividend	3.4	4.0	2.0	2.0	2.0
Net block	50,086.9	53,153.5	51,143.5	43,334.0	37,275.1	Book Value	155.9	176.7	186.3	203.6	224.7
Capital WIP	7,192.3	5,123.5	3,310.5	5,000.0	5,000.0	Free Cash Flow	10.3	6.4	(1.9)	17.2	22.5
Total fixed assets	57,279.2	58,277.0	54,454.0	48,334.0	42,275.1	Valuation Ratios					
Intangible Assets	27,486.3	22,880.3	19,081.5	23,690.5	25,190.5	P/E(x)	51.8	26.7	25.9	23.8	19.5
Goodwill	26,966.7	28,147.4	28,691.4	28,691.4	28,691.4	P/B(x)	3.0	2.6	2.5	2.3	2.1
Other non current assets	2,922.0	1,812.7	1,341.7	1,341.7	1,341.7	EV/EBIDTA(x)	18.8	14.5	13.5	13.0	11.1
Investments	9,747.5	12,598.7	26,159.9	30,411.5	30,412.0	EV/SALES(x)	2.8	2.7	2.6	2.4	2.1
Inventories	34,852.8	40,447.0	39,648.3	42,425.5	46,828.1	Div. Yield(%)	0.7	0.9	0.4	0.4	0.4
Sundry debtors	25,630.5	31,024.5	41,507.2	40,192.6	44,363.5	FCF Yield(%)	2.2	1.4	(0.4)	3.7	4.8
Cash & bank	5,305.6	8,723.6	6,188.1	9,692.1	25,600.1	Return Ratios (%)					
Loans & advances	7,739.4	7,955.3	6,467.8	6,800.6	7,151.9	ROE	5.8	9.9	9.7	9.6	10.7
Other current assets	6,740.1	10,044.0	10,623.3	12,748.0	15,297.6	ROCE	4.9	7.8	8.6	8.7	9.6
Sundry creditors	(15,711.4)	(21,191.2)	(19,479.9)	(21,257.4)	(23,463.3)						
Current Liabilities	(9,329.6)	(6,501.2)	(6,006.0)	(7,207.2)	(8,648.6)						
Provisions	(5,428.9)	(7,650.3)	(8,581.7)	(10,298.0)	(12,357.6)						
Working capital	49,798.5	62,851.7	70,367.1	73,096.1	94,771.5						
Deferred Tax Assets	4,764.1	5,762.5	5,470.0	5,815.6	6,195.7						
Miscellaneous exp.	-	-	-	-	-						
CAPITAL DEPLOYED	178,964	192,330	205,566	211,381	228,878						

* Depreciation includes one time impairment charge of Rs 3500 mn due to litigation and regulatory developments of certain Invagen products



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